

NC Mortgage Market Update

House of Representatives Financial Institutions Committee

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Office of the Commissioner of Banks
State of North Carolina

Overview

- I. National Trends
- II. North Carolina Mortgage Market
- III. Addressing Rising Foreclosures
- IV. Look Ahead to 2009



U.S. home values in steep decline

- Home prices declined by 11-18% last year (Corelogic, Case-Shiller, Jan 2009) and estimated to fall another 14% by mid-2010 (CBO estimate, Jan 2009)
- 8-14 million homeowners “underwater” – owe more on their home than their home is worth (First American, Zillow, Feb 2009)
- Over 9 months of housing inventory, with negative trend in pending home sales



U.S. homeowners struggling to repay mortgages

- 3.1 million foreclosure filings in 2008 (up 81%, Realty Trac, Jan 2009) with another 8 million foreclosures estimated by 2012 (Credit Suisse, Dec 2008)
- 20% of subprime loans seriously delinquent (MBA, Dec 2008). Almost half are delinquent
- Prime loan delinquencies increased 39% (MBA, Dec 2008)
- Alt-A delinquencies (2006-2007 originations) at 25-30% (Clayton, Dec 2008)
- Recasts of payment option ARMs (\$100 Bil in 2009/10) with average payment increase of 63%



Mortgage market turmoil

- Securitization market for residential mortgage loans frozen. Fed buying existing MBS
- Fannie Mae and Freddie Mac taken over by US government
- Subprime lending evaporated (down 87%), replaced by FHA loan products
- Mortgage originations down 39% in 2008
- Significant trend away from broker originated loans (70+% to 18%)
- Interest rates at historic lows



NORTH CAROLINA'S PERFORMANCE



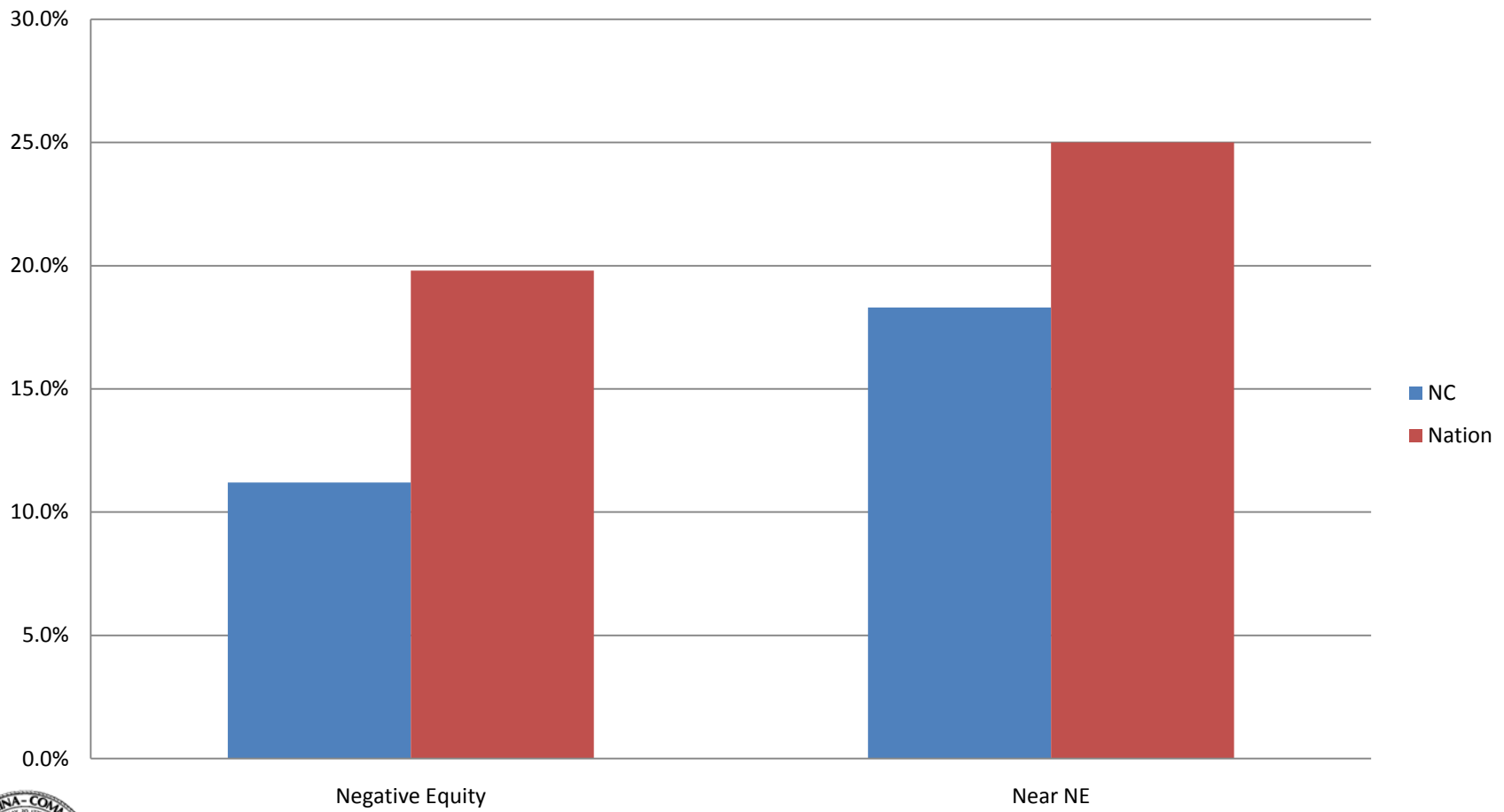
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Until now, NC home prices have fared better than nation, but trending down

- NC home prices never boomed like major urban areas, so the “bust” has been tempered
- Home prices down 2.5% in 2008, compared to 11.1% decline nationwide (First Am. 2009)
- By one account, Durham-Chapel Hill MSA had second largest home price decline in 4th Qtr 2008 (-7.15%)

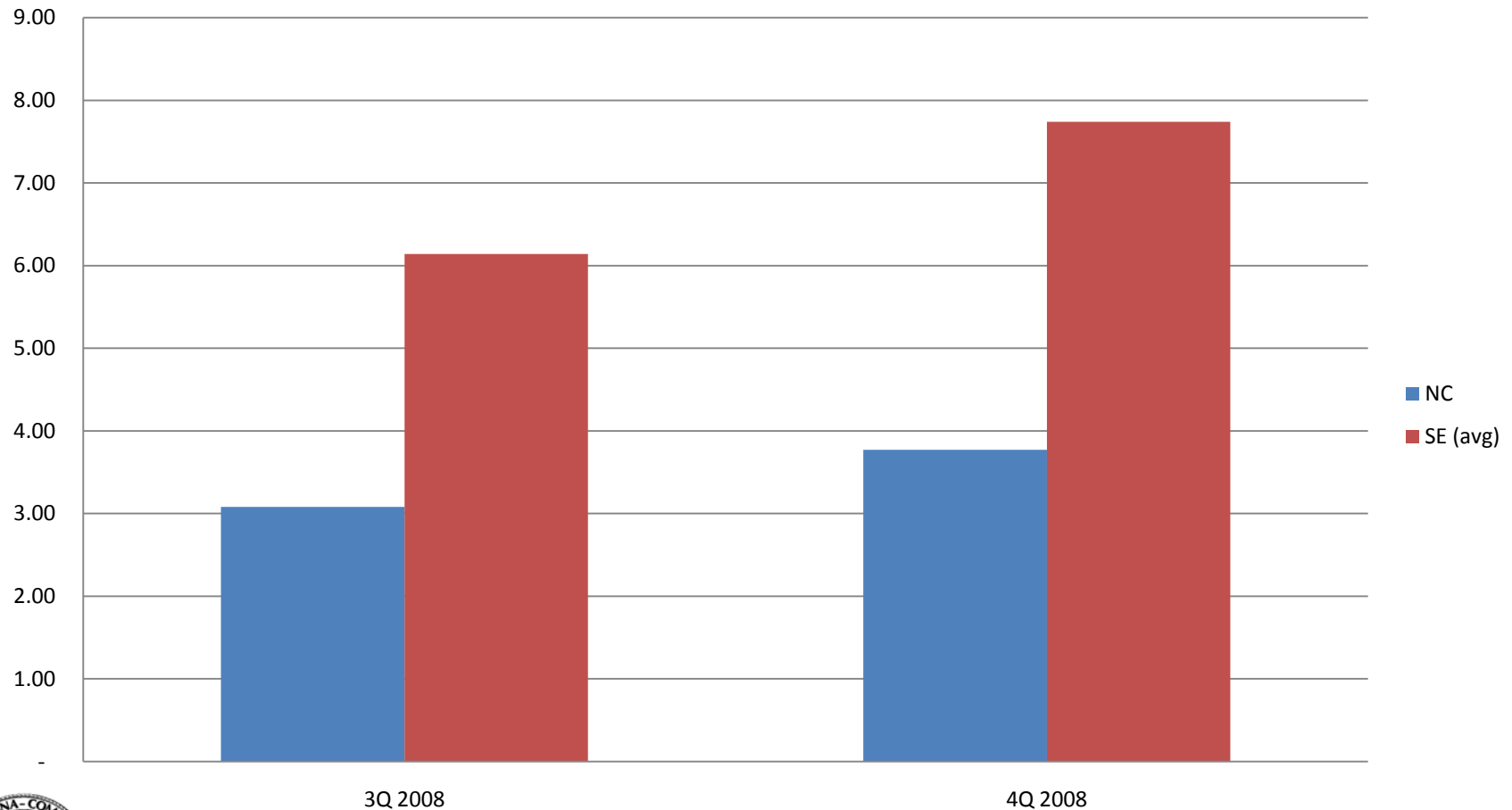


11% of NC mortgages are underwater



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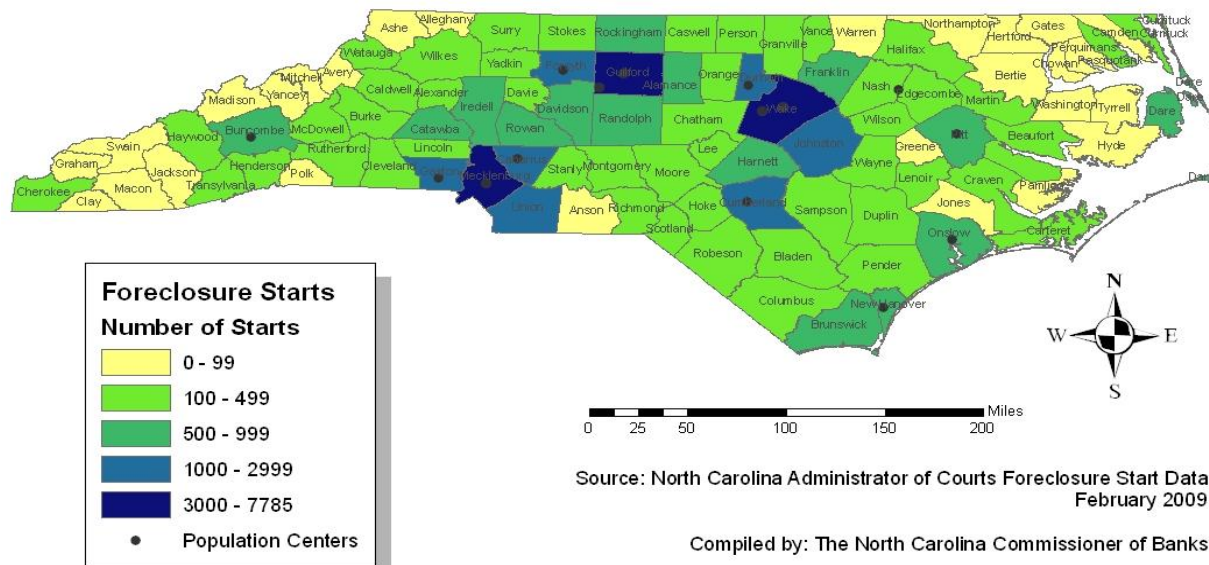
NC foreclosure rate is well-below South Atlantic average



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Foreclosures concentrated in metropolitan areas

Number of Annual Foreclosure Starts in
March 2008-February 2009 by North Carolina County



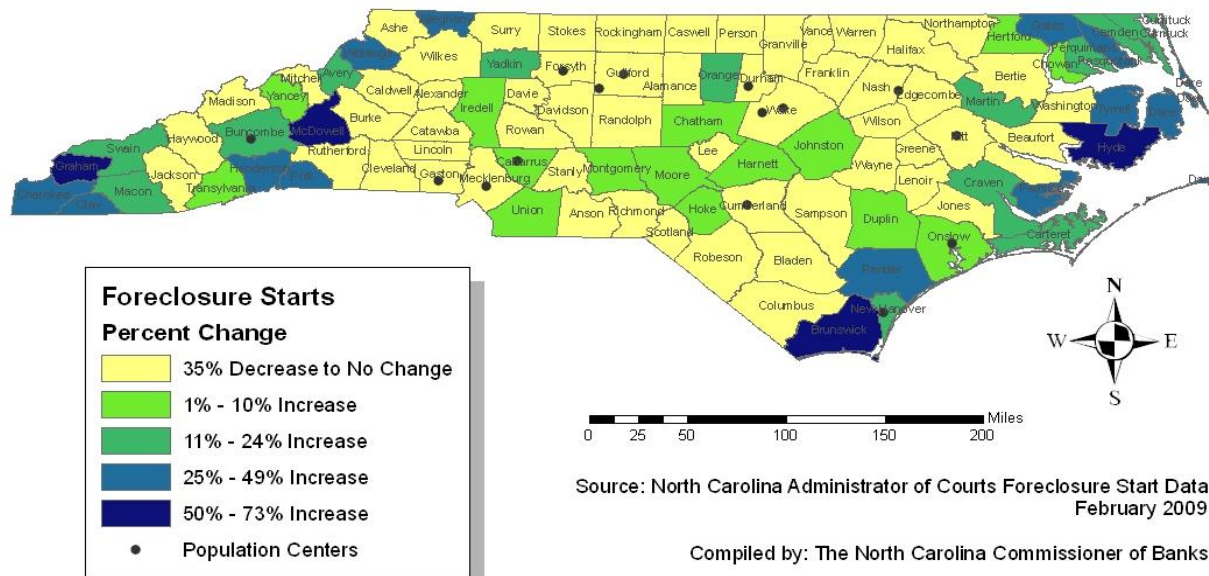
The Center for Community Capital at
The University of North Carolina at Chapel Hill



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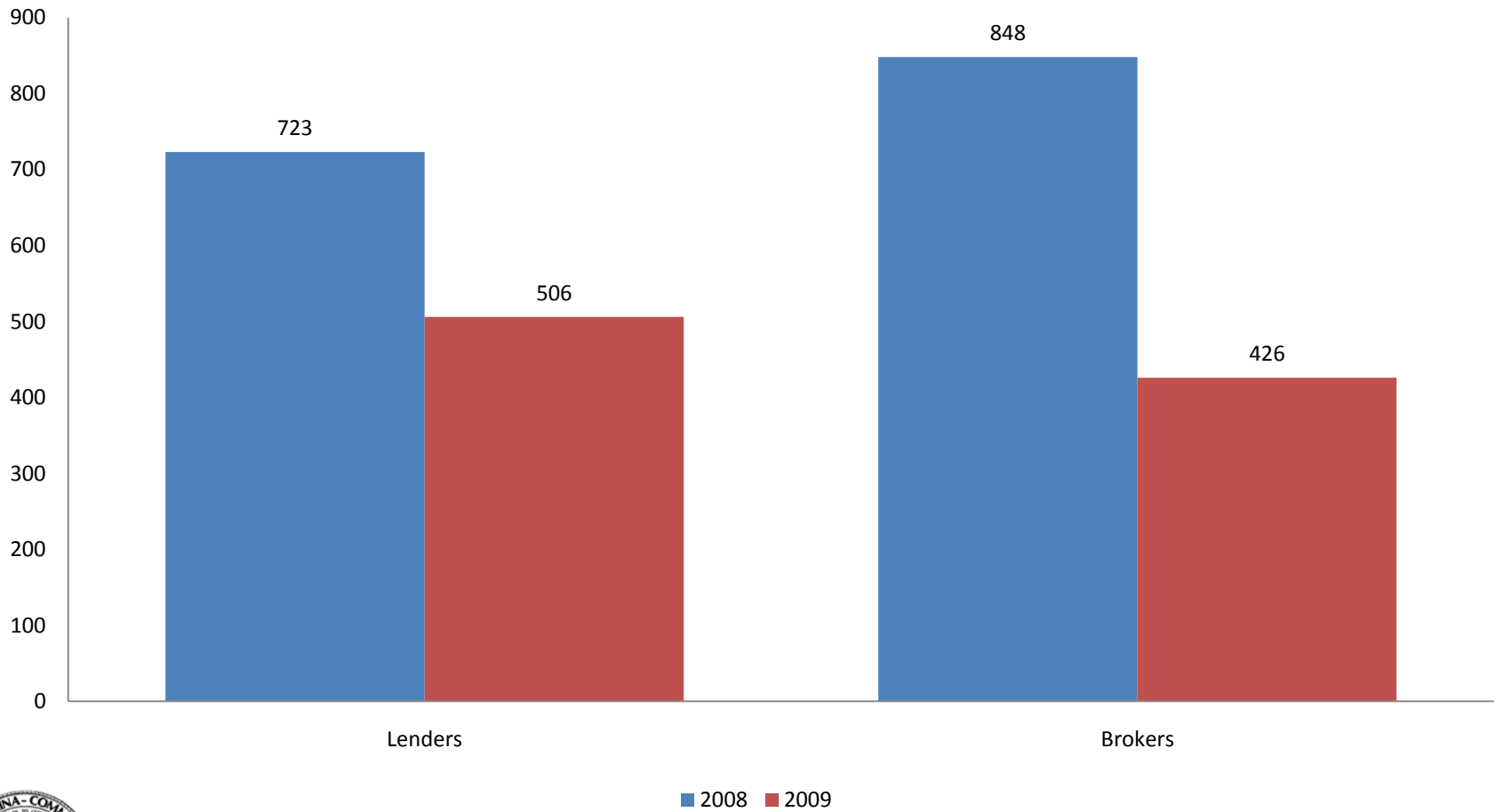
Foreclosure trends not uniform

Percent Change of Annual Foreclosure Starts in
March 2008-February 2009 Compared to Same
Period Previous Year (March 2007-February 2008) by
North Carolina County



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Impact on state-regulated mortgage industry



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ADDRESSING RISING FORECLOSURES



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Mortgage servicing system not designed to engage in mass foreclosure prevention

- Designed to collect payments efficiently and remit to investors, not to engage in intensive underwriting of struggling homeowners in declining housing mkts
- In 50% of foreclosures, homeowners not in contact with mortgage servicer (Freddie Mac, Roper survey)
- 70% of delinquent loans not on track for any type of foreclosure prevention (State working group)
- 50% of loan modifications do not reduce payments (White 2009)



Foreclosure prevention efforts

- Voluntary industry efforts have lagged need for foreclosure prevention, but:
 - New programs announced by several large servicers in 4th Qtr 2008 led to short-term foreclosure moratoria
 - Downside: Build-up of seriously delinquent loans
- Federal efforts through 2008 did not make a dent
- Obama modification program is first program of scale that has reasonable prospect of success



State Home Foreclosure Prevention Project

- Emergency Program to Reduce Home Foreclosures (H.2623; S.L. 2008-226) signed August 17, 2008
- Servicers required to send homeowners in subprime loans a pre-foreclosure notice at least 45 days prior to filing foreclosure
- Servicers required to file pre-foreclosure notice in State database (AOC/NCCOB).
- NCCOB to lead State Home Foreclosure Prevention Project to reduce foreclosures.
- Commissioner can extend filing date of foreclosure for 30 days
- Effective Nov. 1, 2008 – October 31, 2010



Components of SHFPP for filed pre-foreclosure notices

- **Outreach:** State outreach program (mailings and phone) to connect homeowner with housing counselor
- **Communication:** NCCOB foreclosure review team to facilitate communications between counselors and servicers
- **Legal Review:** NCCOB and legal service partners to screen loans for potential legal violations (“Red Flag Review”)



SHFPP: Early Experience

- Foreclosure start rate down 50% in four months since program started
- Over 44,000 pre-foreclosure notices filed on subprime loans by over 130 servicers
- Over 5,500 homeowners have contacted hotline for assistance and over 1,600 have met with counselor
- 143 foreclosures prevented to date
- Property value savings = \$2.4 million; savings to investors if no foreclosure = \$10.0 million
- General Assembly report available at:
www.ncforeclosurehelp.com/research.aspx



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LOOK AHEAD TO 2009



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2009: Looking for bottom

- Weakening economic conditions from late 2008 and into 2009 will increase foreclosure risk significantly
 - Unemployment at 8.7% (Dec 2008) and expected to rise
- New federal program may address affordability pressures if can overcome operational hurdles
- Current SHFPP effort will lessen, but not stop increased foreclosures. Does not address prime loan delinquencies or unemployed homeowners.



Legislative Issues

- Consideration of new Mortgage Lending Act to bring NC into compliance with new federal minimum standards for mortgage loan originator licensing
- Examination of foreclosure prevention programs

